

Message Text

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PAGE 01 BEIRUT 11180 161346Z

46

ACTION EB-11

INFO OCT-01 ARA-16 EUR-25 NEA-14 ISO-00 AEC-11 AID-20

CEA-02 CIAE-00 CIEP-03 COME-00 DODE-00 FEAE-00 FPC-01

H-03 INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07

RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

FRB-03 SAB-01 EA-11 PRS-01 PA-04 JUSE-00 USIA-15

DRC-01 /219 W

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P R 161225Z SEP 74

FM AMEMBASSY BEIRUT

TO SECSTATE WASHDC PRIORITY 297

INFO AMEMBASSY CARACAS

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY VIENNA

USMISSION OECD PARIS

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DEPT PASS AS WARRANTED

E.O. 11652: N/A

TAGS: ENRG, EFIN, OPEC

SUBJECT: MEES REPORT OF OPEC CONFERENCE

REF: VIENNA 7903, 7904, 7943

SUMMARY: MIDDLEDLE EAST ECONOMIC SURVEY (MEES) OF
SEPTEMBER 13 REPORTED OPEC VIENNA CONFERENCE IN CON-
SIDERABLE DETAIL, GIVING PRICE EFFECTS, OPEC FUTURE GOALS,
PROPOSALS NOT RPT NOT ACCEPTED AND SAUDI STATEMENT THAT
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PAGE 02 BEIRUT 11180 161346Z

SAUDIS "MAY BE OBLIGED TO RECONSIDER ATTITUDE TOWARD

OPEC". MEES REPORT SUMMARIZED AS FOLLOWS. END SUMMARY.

1. ASSUMING MARKER CRUDE IS 34-DEGREE ARABIAN LIGHT AND WEIGHTING IS 40 PER CENT EQUITY OR COMPANY CRUDE, 60 PER CENT PARTICIPATION OR GOVERNMENT CRUDE, OPEC DECISION TO INCREASE WEIGHTED AVERAGE OF GOVERNMENT TAKE FOR MARKER CRUDE BY 3.5 PER CENT OR 33 CENTS PER BARREL (BBL) RESULTS IN FOLLOWING PER BBL INCREASES:

A. FOR MOST OPEC MEMBERS, ROYALTY RATE RISES FROM 14.5 TO 16.67 PER CENT; INCOME TAX RISES FROM 55 PER CENT TO 65.75 PER CENT.

B. GOVERNMENT TAKE ON EQUITY CRUDE INCREASES \$1.147, FROM \$7.113 TO \$8.260.

C. TAX-PAID COST ON EQUITY CRUDE INCREASES \$1.147, FROM \$7.213 TO \$8.360.

D. AVERAGE GOVERNMENT TAKE ON ALL CRUDE PRODUCTION INCREASES BY 33 CENTS, FROM \$9.41 TO \$9.74.

E. AVERAGE COST TO PRODUCER OIL COMPANIES ON ALL CRUDE PRODUCTION INCREASES BY 33 CENTS, FROM \$9.51 TO \$9.84.

2. 3.5 PER CENT INCREASE FOR FOURTH QUARTER IS EQUIVALENT TO ANNUAL RATE OF 14 PER CENT.

3. IN TAKING DECISION TO ESTABLISH WORKING COMMITTEE FOR LONG-TERM PRICING, MEES LEARNS, OPEC "HAS IN MIND" SETTING PRICES FOR ONE YEAR PERIODS STARTING JANUARY 1 WITH QUARTERLY ADJUSTMENTS FOR INDUSTRIAL COUNTRY INFLATION. PRICE WILL BE SET THROUGH ALTERING GOVERNMENT TAKE (ROYALTY AND TAX RATES) RATHER THAN POSTED PRICE, WHICH WILL REMAIN FROZEN BUT WILL "FOR ALL PRACTICAL PURPOSES DISAPPEAR". ALSO, MEES UNDERSTANDS, OPEC WILL OVERHAUL FISCAL SYSTEM TO UNIFY PRICES AND REDUCE EQUITY/PARTICIPATION CRUDE PRICE DIFFERENTIAL FURTHER, WHILE LEAVING "APPROPRIATE MARGIN" FOR THE COMPANIES.

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PAGE 03 BEIRUT 11180 161346Z

4. DECISION TO REQUEST SECRETARY-GENERAL TO CARRY OUT (ANOTHER) SUPPLY/DEMAND STUDY FOLLOWED STRONG OPPOSITION BY SAUDI ARABIA AND OTHERS TO ECONOMIC COMMISSION PROPOSAL FOR ACROSS-THE-BOARD PRODUCTION CUTBACKS BY ALL COUNTRIES TO ELIMINATE SUMMER SURPLUS. INSTEAD, ABU DHABI ANNOUNCED 300,000 BPD PRODUCTION REDUCTION FOR SEPTEMBER, JOINING KUWAIT, IRAQ, VENEZUELA, LIBYA AND ALGERIA IN "VOLUNTARY" PRODUCTION REDUCTIONS.

5. MEES SAID ABOVE DECISIONS TAKEN AGAINST BACKGROUND OF VARIOUS PROPOSALS WHICH APPARENTLY NOT ACCEPTED BY OPEC. AMONG THESE WERE:

A. PROPOSAL BY MAJORITY OF MEMBERS OF ECONOMIC COMMISSION TO RAISE AVERAGE COST OF CRUDE TO COMPANIES BY 14 PER CENT TO ABOUT \$10.68/BBL THROUGH \$3.25 SURCHARGE ON EQUITY CRUDE, RAISING TAX-PAID COST FROM ABOUT \$7.21 TO \$10.46.

B. IRANIAN PROPOSAL TO SET EQUITY CRUDE PRICE AT ABOUT \$9.40 AND "MINIMUM OPEN-MARKET PRICE" (PRESUMABLY OF PARTICIPATION CRUDE) AT ABOUT \$9.90, LEAVING 50-CENT MARGIN TO COMPANIES AND ABOLISHING POSTED PRICE.

C. SAUDI PROPOSAL TO COMBINE INCREASE ON EQUITY CRUDE WITH DECREASE IN PRICE OF PARTICIPATION CRUDE BY LOWERING POSTED PRICE, "WITH A VIEW TO HAVING THE TWO MEET AT SOME ACCEPTABLE LEVEL". MEES UNDERSTANDS THAT ALGERIA, JUWAIT AND IRAN ACCEPTED THIS IN PRINCIPLE BUT IRAQ, LIBYA AND OTHERS STRONGLY OPPOSED IT.

6. AFTER CONFERENCE FAILED ACCEPT SAUDI PROPOSALS, "A PROMINENT SAUDI SOURCES TOLD MEES: "WE AGREE WITH THE OTHER OPEC COUNTRIES THAT AN INCREASE IN AVERAGE GOVERNMENT TAKE IS FULLY JUSTIFIED, CONSIDERING THE EXCESS PROFITS CURRENTLY BEING REALIZED BY THE INTERNATIONAL OIL COMPANIES. BUT WE ALSO FEEL STRONGLY, AND WE PROPOSED AT THE CONFERENCE, THAT SUCH AN INCREASE IN GOVERNMENT TAKE SHOULD BE COUPLED WITH A REDUCTION IN POSTED PRICES WHICH WOULD HELP THE CONSUMING COUNTRIES, PARTICULARLY THOSE WHICH ARE NOT THE HOME COUNTRIES OF MAJOR INTERNATIONAL OIL COMPANIES AND ARE THEREFORE PAYING FOR THEIR CRUDE AT HIGHER PRICES.
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PAGE 04 BEIRUT 11180 161346Z

UNFORTUNATELY THIS PROPOSAL, THOUGH IT WAS ACCEPTED BY SOME OF THE MEMBERS, WAS NOT IN THE END ADOPTED. SAUDI ARABIA HAS DONE ITS BEST IN RECENT MONTHS TO COOPERATE TO THE FULL WITH ITS OPEC PARTNERS, NOTABLY BY PUTTING OFF THE AUCTION SALE IT ORIGINALLY INTENDED TO HOLD IN AUGUST AND BY NOT INCREASING PRODUCTION. HOWEVER OPEC HAS NOT RECIPROCATED BY TAKING SAUDI ARABIA'S VIEWS INTO CONSIDERATION IN ITS DECISIONS. SAUDI ARABIA MAY THEREFORE BE OBLIGED TO RECONSIDER ITS ATTITUDE TOWARDS OPEC."
GODLEY

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